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A STUDY OF EXECUTIVE COMPENSATION PLAN DESIGN

1990

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SECTION I

CORPORATE PERFORMANCE VARIABLES THAT SHOULD BE CONSIDERED IN EXECUTIVE COMPENSATION PLAN DESIGN ....A DEFINITION OF TERMS

We would like to present a cross-section of corporate performance variables together with their influence on Executive Compensation Plan Design.

Annual Sales

Annual sales is the corporate performance variable with the most positive influence on total executive compensation. Significant differences in Annual Sales volume are normally accompanied by significant differences in executive compensation. Due to the predominate mix of manufacturing and service industries included in our survey, Annual Sales is the most significant indicator of corporate size.

Based on our survey data, the average Annual Sales volume is $1,740.0 billion.

Profits

Unfortunately, there is no direct correlation between corporate profits and corporate size, despite the fact that sales and profits are the two most significant corporate performance variables. Profit is the corporate performance variable which has unique application. Corporate profit is the ultimate indicator of corporate performance. An additional ingredient, vital to the relationship between corporate size and corporate profit is the executive who can make a significant contribution to that objective.

Today, we see the evolution of a more rational approach to executive incentive compensation. Its intrinsic philosophy seems to be that additional compensation will be paid for measurable contribution to increased profits. Intensive effort is being expended towards quantifying the method of measuring individual contribution to increased profits. Corporate emphasis on individual goals, as well as corporate goals, has been extremely evident in the last two decades. Significant differences in controllable profitability will influence the amount of incentive compensation payments.

Based on our survey data, Pre-Tax Profits average $535.7 million and After-Tax Profits average $370.9 million.

When a company uses a straight percentage of profits to establish the applicable incentive fund, the number of eligible employees is usually quite large.

When a company uses an incentive set aside or threshold against

profits before an incentive fund can begin to be generated, there is a sizeable reduction in the amount of the incentive fund and normally a similar reduction in the number of eligible employees.

An example of a set aside or threshold against profits would be in the following incentive fund formula:

> "An incentive fund will begin to generate when profits exceed 6% of net capital invested and at a rate of 10% of the excess of earnings over 6% of net capital invested."

Other Corporate Performance Variables Used as Incentive Set Asides or Thresholds

In a concerted effort toward improving the two major corporate performance variables of corporate size and profitability, many companies identify certain corporate performance variables whose improvements through individual executive contribution would, in turn, improve the overall profitability of the corporation. Incentive set asides establish a certain floor reflected by the percentage or dollar amount of a corporate performance variable, which must be exceeded before an incentive fund can begin to be generated. Set asides or threshold are intended to assure a reasonable return to the stockholders or owners prior to the generation of an incentive compensation fund. The fund formulae on Page 12 gives an excellent understanding of the type of set aside or threshold employed. They range from a basic set aside of profits to set asides against stockholders' equity, assets, net worth, total investment, etc., which must be exceeded before a fund can be generated. More specific examples and definitions are as follows:

Stockholders' Equity

Stockholders' Equity is the corporate performance variable which, when used as an incentive set aside or threshold, is intended to assure a reasonable protection for stockholder contribution before an incentive fund can begin to be generated. Stockholders' Equity is defined by us to be Total Capitalization excluding Long Term Debt.

Based on our survey data, the average annual Stockholders' Equity is $2.8 billion.

Total Investment

Total Investment is the corporate performance variable which, when used as an incentive set aside or threshold, is intended to assure a reasonable Return on Investment (ROI) before an incentive fund can begin to be generated. Total Investment is defined by us to include Capital, Surplus, and Long Term Debt.

Based on our survey data, the average annual Total Investment is $4.3 billion.

Comments

Each company is an entity unto itself with respect to executive incentive compensation. Each company must determine the corporate performance variables most in need of improvements and design executive compensation plans which reward contribution to that improvement.

To put the complexities of executive compensation into perspective, we need only seek a definition of "executive". The Fair Labor Standards Act has the only objective definition of Executive that we have seen. However, this is merely an attempt to define an exclusion from the Act based on supervisory responsibility irrespective of organizational contribution or level. The dictionary definition is much too vague. The criterion for individual participation to date has been either an arbitrary organization level, salary grade, salary or management discretion.

At the bottom line, it is each company's subjective determination of who makes a significant contribution to the improvement of selected corporate performance variables.

Since the very definition of executive is subjective and requires definition, so too does every other element of executive compensation. It is essentially a "quid pro quo" determination for the mutual good of the company and the individual sewn together by an element of credibility and trust. It is a necessary, but not an easy fusion.

SECTION II

EXECUTIVE INCENTIVE COMPENSATION

SUMMARIZATION OF THE KEY ELEMENTS UTILIZED IN GENERATING AN EXECUTIVE INCENTIVE COMPENSATION PLAN

The key elements utilized (assuming an adequate profit base) in generating executive Incentive compensation are:

* ELIGIBILITY -- DO THOSE ELIGIBLE MAKE A SIGNIFICANT AND MEASURABLE CONTRIBUTION TO THE ORGANIZATION?

* FUND FORMULA -- WILL IT GENERATE A FUND OF MONEY RELATED TO CORPORATE PERFORMANCE?

* AWARD ALLOCATION -- DOES IT REFLECT EQUITY IN DISTRIBUTION OF THE FUND?

Short Term Incentive Compensation

Short Term Incentive Plans

METHODS OF DETERMINING ELIGIBILITY

Eligibility

There were, among the 123 companies providing eligibility data, four major sources of eligibility for executive compensation.

1. Salary Grade - 51 companies use it as their major source of eligibility.

   The mid-points of salary grades range from $45,000 to $165,000 with an unweighted average of $76,214.

2. Organization Level - 44 companies use it as their major source of eligibility.

19 companies	V.P. and officer level
2 companies	One level below officer level and above
3 companies	Officers of parent and subsidiaries and selected key management
17 companies	Director Level and above
2 companies	Department Manager level and above
1 company	Middle Management and above

3. Salary - 19 companies use it as their major source of eligibility.

   Minimum salary requirements range from $40,000 to $70,000 with an unweighted average of $52,000 as an eligibility standard.

4. Discretionary - 9 companies use it as their major source of eligibility.

Eligible Employees

The number of eligible employees reported ranged from 5 to 7000 with an average of 812.

Employees Receiving Payment

The number of employees receiving incentive bonus payment in the reporting companies ranged from a low of 5 to a high of 436 with an average of 147. Thus, 18.1% of these eligible actually received payment. This represents 8.0% of total exempt employees and 1.5% of total employees.

Total Incentive Bonus Fund Generated

The total fund generated ranged from approximately $120,000 to $7,000,000 with an average of $1,376,000.

Was the Total Incentive Bonus Fund Paid Out?

106 companies -- Yes

13 companies -- No

4 companies -- Information not available

Amount of Incentive Bonus Fund Paid Out

The total fund paid out ranged from $120,000 to $4,200,000 with an average payment of $1,260,000. Thus, 91.6% of the total fund generated was actually paid out.

Must the total Fund be awarded in the current plan year	If no, can surplus be carried forward to future year
91 companies - Yes	20 companies - Yes
7 companies - No	2 companies - No
2 companies - Info not available	1 company - Option of the Board

Determination of Individual Award

108 companies -- Formula
14 companies -- Discretionary

Short Term Incentive Compensation Plans

METHODS OF GENERATING EXECUTIVE COMPENSATION FUNDS

FUND FORMULAE

PRE-TAX PROFITS

1. Straight Percentage of Pre-Tax Profits

Examples:

* 5% of pre-tax earnings
* 6% of pre-tax earnings

2. Percentage payout in excess of set aside

Examples:

* Variable percentage of mid-point X achievement factor based on ROCE (Return on Capital Employed)
* 10% of pre-tax earnings in excess of 12% of net worth.
* 7% of pre-tax profit in excess of 14% of stockholders equity.
* 4% of pre-tax profit less 10% of adjusted net income.
* 5% of pre-tax profits up to $40,000,000. 6% of pre-tax profits between $40,000,000 and $45,000,000. 7% of pre-tax profits between $45,000,000 and $50,000,000 8% of pre-tax profits in excess of $50,000,000.
* 80% of Budgeted ROA - 50% funding
  100% of Budgeted ROA - 88% funding
  110% of Budgeted ROA - 100% funding

AFTER-TAX PROFITS

1. Straight Percentage of After-Tax Earnings

Examples:

* 7% of net operating income
* 10% of consolidated net earnings

2. Percentage payout in excess of set aside

Examples:

* 15% of net profits in excess of 5% of capital employed, not to exceed 25% of dividends.
* 80% of consolidated net profits after deducting 5% of consolidated net worth.
* 10% of net profits after 6% set aside on Return on Investment (ROI).
* 10% of the excess of net earnings over 5% of the capital invested.
* 8% of earnings in excess of 6% of net earnings.
* Maximum fund cannot exceed 1/2 of 1% of company net income for common stock.

Short Term Incentive Compensation Plans

METHODS OF ALLOCATING INDIVIDUAL AWARDS

Individual Award Formula Examples

* Based on corporate performance with a percentage range established for each salary grade relative to attainment of established goals and objectives.

* Fund for each operating unit based on performance to goals. Individual awards are distributed as a percentage of base salary in relation to individual performance rating. Top management adjusts on discretionary basis.

* Based on corporate performance and major operating unit performance with a percentage range applicable by salary grade related to performance appraisal. The percentage is applied to base salary.

* Once the President has rated the Company Performance, each manager will have a pool of dollars to disperse. He may rate his subordinates and recommend bonuses at his discretion. Company earnings portions then added.

* Evaluation of performance of company and performance of individual vis a vis established quantitative and qualitative goals.

* Management makes awards to those who performed in an exceptional manner, based on quantitative performance appraisals in relation to individual goals.

* Based on Organization and Evaluation. An individual at a certain corporate level and salary grade receives 30% of the mid-point of that grade (50% if ROA is attained and 50% for successful completion of established objectives).

Lowest Award

The lowest award payments by company ranged from $850 to $23,000 with an unweighted average of $6,499.

Average Award

The average awards paid by companies ranged from $4,100 to $50,000 with an unweighted average of $17,043.

Highest Award

The highest award payments by company ranged from $13,000 to $300,000 with an unweighted average of $147,777.

Plan Period

66 companies -- calendar year
50 companies -- fiscal year

Method of Individual Payment

87 companies -- cash
15 companies -- combination of cash and stock
14 companies -- stock

Lowest Salary

The lowest individual salary of those receiving awards ranged from $35,000 to $110,000, with an unweighted average of $62,500.

Average Salary

The average salary paid by companies ranged from $50,000 to $175,000, with an unweighted average of $108,400.

Highest Salary

The highest individual salary of those receiving awards ranged from $120,000 to $610,000 with an unweighted average of $311,744.

Long Term Incentive Plans

METHODS OF DETERMINING ELIGIBILITY

Eligibility

There were, among the 34 companies providing long term incentive compensation eligibility data, three major sources of eligibility for executive compensation.

1. Salary Grade -- 9 companies use it as their major source of eligibility.

   The mid-points of salary grades range from $45,000 to $110,000 with an unweighted average of $86,000.

2. Organization Level -- 16 companies use it as their major source of eligibility.

   9 companies -- V.P. and Officer Level
   4 companies -- Officers of parent and subsidiaries and selected key management.
   3 companies -- Director level

3. Salary -- 5 companies use it as their major source of eligibility.

   Minimum salary requirements range from $45,000 to $125,000 with an unweighted average of $78,600 as an eligibility standard.

Eligible Employees

The number of eligible employees reported ranged from 5 to 350 with an average number of 92.

Long Term Incentive Plans

METHODS OF GENERATING EXECUTIVE COMPENSATION FUNDS

FUND FORMULAE

* Actual average earnings per share over three years must exceed average projected earnings per share over three years. The excess is the fund.

* Phantom stock is awarded over a four year period relative to actual stock value. The cash equivalent of the four year increase in stock value and dividends in the fund.

* Actual earnings per share growth over a four year cycle. Cumulative earnings per share targets are established. Performance share awards are based on actual attainment of earnings per share against these targets.

* Restricted stock is awarded over a five year period contingent on satisfactory performance and the attainment of certain specific goals and objectives. The appreciation of the stock over that period is the fund.

* A targeted average return on investment is established over a three year period. The excess of actual average return on investment over targeted average return on investment is the fund.

* Phantom Stock -- 1/2 of short term award is deferred by plan design for three years in an equivalent stock account.

* 1st Element -- up to 32% of Base Salary
  ROCE in relation to 16 peer companies.

  2nd Element -- up to 48% of Base Salary
  Measures earnings per share achieved against annually derived scale of EPS.

* Long Term Component measures (varied % of mid-point)
  (Achieved Factor weighted among ROCE (50%), differential in residual rates (25%) and differential in non-fuel oil expense compared to a peer group.)

Long Term Incentive Plans

METHODS OF ALLOCATING INDIVIDUAL AWARDS

INDIVIDUAL AWARD FORMULAE

* An individual award factor is established for each eligible salary grade and multiplied by the fund to establish the fund to establish the award.

* Grants of phantom stock are awarded based on organization levels and a divisional or corporate growth factor.

* Individual salary is divided by all salaries. The resulting factor is multiplied by the total fund to determine the individual award.

* Individual award base is established by the following formula:

  Salary X a factor ranging from 1.25 to .30 divided by the price of the stock on the date of grant.

* A number of units is allocated for each salary grade. The total number of units is divided into the fund to establish a unit value. To establish an individual award to total number of units allocated is multiplied by the unit value.

Lowest Award

The lowest award payments by company ranged from $4,700 to $140,000 with an unweighted average of $41,310.

Average Award

The average awards paid by companies ranged from $12,500 to $200,000 with an unweighted average of $69,825.

Highest Award

The highest award payments by company ranged from $120,000 to $350,000 with an unweighted average of $208,285.

Plan Period

 2 companies -- 1 year
13 companies -- 3 years
 2 companies -- 4 years
15 companies -- 5 years

Method of Individual Payment

2 companies -- cash

20 companies -- varied

Examples:
* 2/3 cash and 1/3 stock
* 50% cash and 50% stock
* Elective mix of cash and stock
* Cash - current stock - deferred

Lowest Salary

The lowest individual salary of those receiving awards ranged from $41,000 to $230,000 with an unweighted average of $117,925.

Average Salary

The average salary paid by companies ranged from $80,000 to $325,000 with an unweighted average of $181,875.

Highest Salary

The highest individual salary of those receiving awards ranged from $300,000 to $600,000 with an unweighted average of $467,350.

TYPES OF EXECUTIVE COMPENSATION PLANS REPORTED

TYPES OF EXECUTIVE COMPENSATION PLANS REPORTED

* Annual Executive Incentive Plan

* Annual Executive Bonus Plan

* Annual Executive Profit Sharing Plan

* Phantom Stock Bonus Plan

* Restricted Stock Bonus Plan

* Stock Option Plan -- Non-Qualified

* Dividend Equivalent Plan

* Performance Share Plan

* Incentive Stock Option

SECTION III

OVERVIEW OF TOTAL INCENTIVE COMPENSATION FOR SELECTED EXECUTIVE BENCHMARK POSITIONS

Overview of Total Incentive Compensation
For Selected Executive Benchmark Positions

Position: Chief Executive Officer

Sales Volume	Base Salary
3rd Quartile -- $2.7 billion	3rd Quartile -- $554.0
Average -- $1.7 billion	Average -- $381.5
1st Quartile -- $75.5 million	1st Quartile -- $160.0

Incentive Compensation	Total Compensation
3rd Quartile -- $152.7	3rd Quartile -- $706.7
Average -- $146.5	Average -- $528.2
1st Quartile -- $95.2	1st Quartile -- $255.2

Incentive Compensation as a % of Base Salary:

3rd Quartile -- 27.8%

Average -- 38.4%

1st Quartile -- 59.2%

Overview of Total Incentive Compensation
For Selected Executive Benchmark Positions

Position: Chief Operating Officer

Sales Volume	Base Salary
3rd Quartile -- $2.8 billion	3rd Quartile -- $400,000
Average -- $2.2 billion	Average -- $259,900
1st Quartile -- $45.5 million	1st Quartile -- $120,000

Incentive Compensation	Total Compensation
3rd Quartile -- $ 93,000	3rd Quartile -- $493,800
Average -- $113,400	Average -- $373,300
1st Quartile -- $107,000	1st Quartile -- $227,000

Incentive Compensation as a % of Base Salary:

3rd Quartile -- 23.4%

Average -- 43.6%

1st Quartile -- 89.2%

Overview of Total Incentive Compensation
For Selected Executive Benchmark Positions

Position: Executive Vice President

Sales Volume	Base Salary
3rd Quartile -- $2.8 billion	3rd Quartile -- $290,000
Average -- $1.7 billion	Average -- $191,000
1st Quartile -- $66.5 million	1st Quartile -- $117,000

Incentive Compensation	Total Compensation
3rd Quartile -- $ 94,000	3rd Quartile -- $384,000
Average -- $ 74,300	Average -- $265,400
1st Quartile -- $ 48,800	1st Quartile -- $168,800

Incentive Compensation as a % of Base Salary:

3rd Quartile -- 32.4%

Average -- 38.9%

1st Quartile -- 41.7%

Overview of Total Incentive Compensation
For Selected Executive Benchmark Positions

Position: Top Financial Executive

Sales Volume	Base Salary
3rd Quartile -- $2.7 billion	3rd Quartile -- $253,400
Average -- $1.7 billion	Average -- $163,000
1st Quartile -- $57.6 million	1st Quartile -- $ 90,800

Incentive Compensation	Total Compensation
3rd Quartile -- $ 84,100	3rd Quartile -- $337,500
Average -- $ 56,900	Average -- $219,900
1st Quartile -- $ 26,700	1st Quartile -- $117,500

Incentive Compensation as a % of Base Salary:

3rd Quartile -- 33.2%

Average -- 34.9%

1st Quartile -- 29.4%

Overview of Total Incentive Compensation
For Selected Executive Benchmark Positions

Position: Top Marketing Executive

Sales Volume	Base Salary
3rd Quartile -- $2.4 billion	3rd Quartile -- $152,900
Average -- $1.4 billion	Average -- $132,800
1st Quartile -- $45.5 million	1st Quartile -- $ 75,000

Incentive Compensation	Total Compensation
3rd Quartile -- $118,600	3rd Quartile -- $271,500
Average -- $ 45,600	Average -- $178,400
1st Quartile -- $ 42,000	1st Quartile -- $117,000

Incentive Compensation as a % of Base Salary:

3rd Quartile -- 77.6%

Average -- 34.3%

1st Quartile -- 56.0%

Overview of Total Incentive Compensation
For Selected Executive Benchmark Positions

Position: Top Human Resources Executive

Sales Volume	Base Salary
3rd Quartile -- $2.6 billion	3rd Quartile -- $148,000
Average -- $1.6 billion	Average -- $111,500
1st Quartile -- $71.0 million	1st Quartile -- $ 72,700

Incentive Compensation	Total Compensation
3rd Quartile -- $ 59,000	3rd Quartile -- $207,000
Average -- $ 36,100	Average -- $147,600
1st Quartile -- $ 25,300	1st Quartile -- $ 98,000

Incentive Compensation as a % of Base Salary:

3rd Quartile -- 39.9%

Average -- 32.4%

1st Quartile -- 34.8%

Overview of Total Incentive Compensation
For Selected Executive Benchmark Positions

Position: Controller

Sales Volume	Base Salary
3rd Quartile -- $2.6 billion	3rd Quartile -- $153,100
Average -- $1.5 billion	Average -- $100,800
1st Quartile -- $53.3 million	1st Quartile -- $ 58,900

Incentive Compensation	Total Compensation
3rd Quartile -- $ 46,100	3rd Quartile -- $199,200
Average -- $ 27,700	Average -- $128,500
1st Quartile -- $ 13,900	1st Quartile -- $ 72,800

Incentive Compensation as a % of Base Salary:

3rd Quartile -- 30.1%

Average -- 27.5%

1st Quartile -- 23.6%

Overview of Total Incentive Compensation
For Selected Executive Benchmark Positions

Position: Top Quality Control Executive

Sales Volume		Base Salary	
3rd Quartile	$2.4 billion	3rd Quartile	$110,000
Average	$1.5 billion	Average	$ 89,900
1st Quartile	$30.0 million	1st Quartile	$ 59,500

Incentive Compensation		Total Compensation	
3rd Quartile	$ 30,200	3rd Quartile	$141,200
Average	$ 18,600	Average	$108,500
1st Quartile	$ 17,300	1st Quartile	$ 76,800

Incentive Compensation as a % of Base Salary:

3rd Quartile -- 27.5%

Average -- 20.7%

1st Quartile -- 29.1%

Overview of Total Incentive Compensation
For Selected Executive Benchmark Positions

Position: Top Sales Executive

Sales Volume	
3rd Quartile	$1.7 million
Average	$1.2 million
1st Quartile	$41.5 million

Base Salary	
3rd Quartile	$ 90,800
Average	$ 87,900
1st Quartile	$ 74,300

Incentive Compensation	
3rd Quartile	$ 29,300
Average	$ 27,900
1st Quartile	$ 26,400

Total Compensation	
3rd Quartile	$120,100
Average	$115,800
1st Quartile	$100,700

Incentive Compensation as a % of Base Salary:

3rd Quartile	32.3%
Average	31.7%
1st Quartile	35.5%

Overview of Total Incentive Compensation
For Selected Executive Benchmark Positions

Position: Top E.D.P. Executive

Sales Volume	Base Salary
3rd Quartile -- $2.3 billion	3rd Quartile -- $115,600
Average -- $1.6 billion	Average -- $ 88,100
1st Quartile -- $49.8 million	1st Quartile -- $ 52,300

Incentive Compensation	Total Compensation
3rd Quartile -- $ 33,700	3rd Quartile -- $149,300
Average -- $ 16,600	Average -- $104,700
1st Quartile -- $ 11,900	1st Quartile -- $ 64,200

Incentive Compensation as a % of Base Salary:

3rd Quartile -- 29.2%

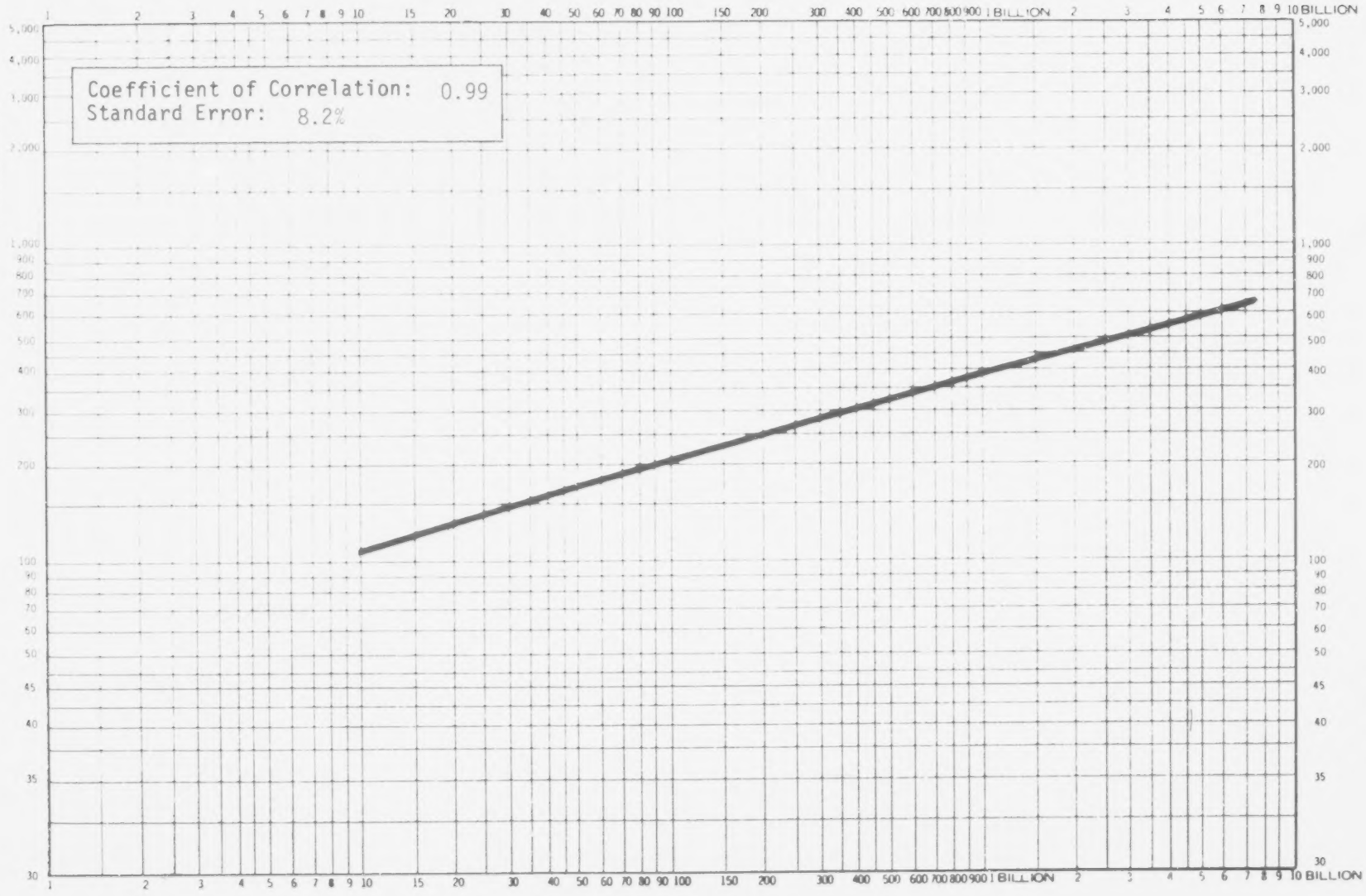
Average -- 18.8%

1st Quartile -- 22.8%

SECTION IV

BASE SALARY REGRESSION ANALYSIS FOR EXECUTIVE BENCHMARK POSITIONS

Executive Benchmark Position: Chief Executive Officer - Base



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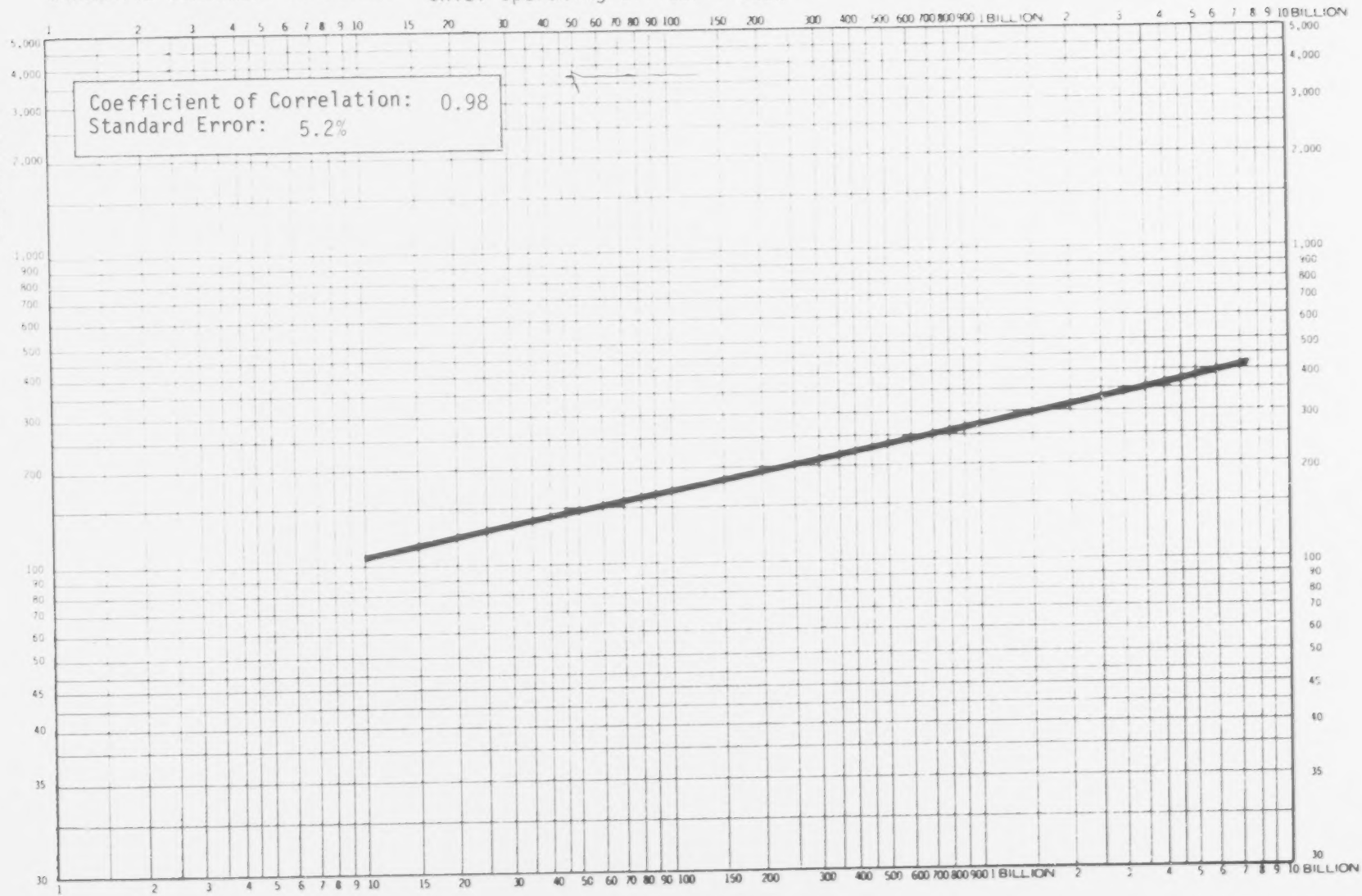
Executive Benchmark Position: Chief Operating Officer - Base



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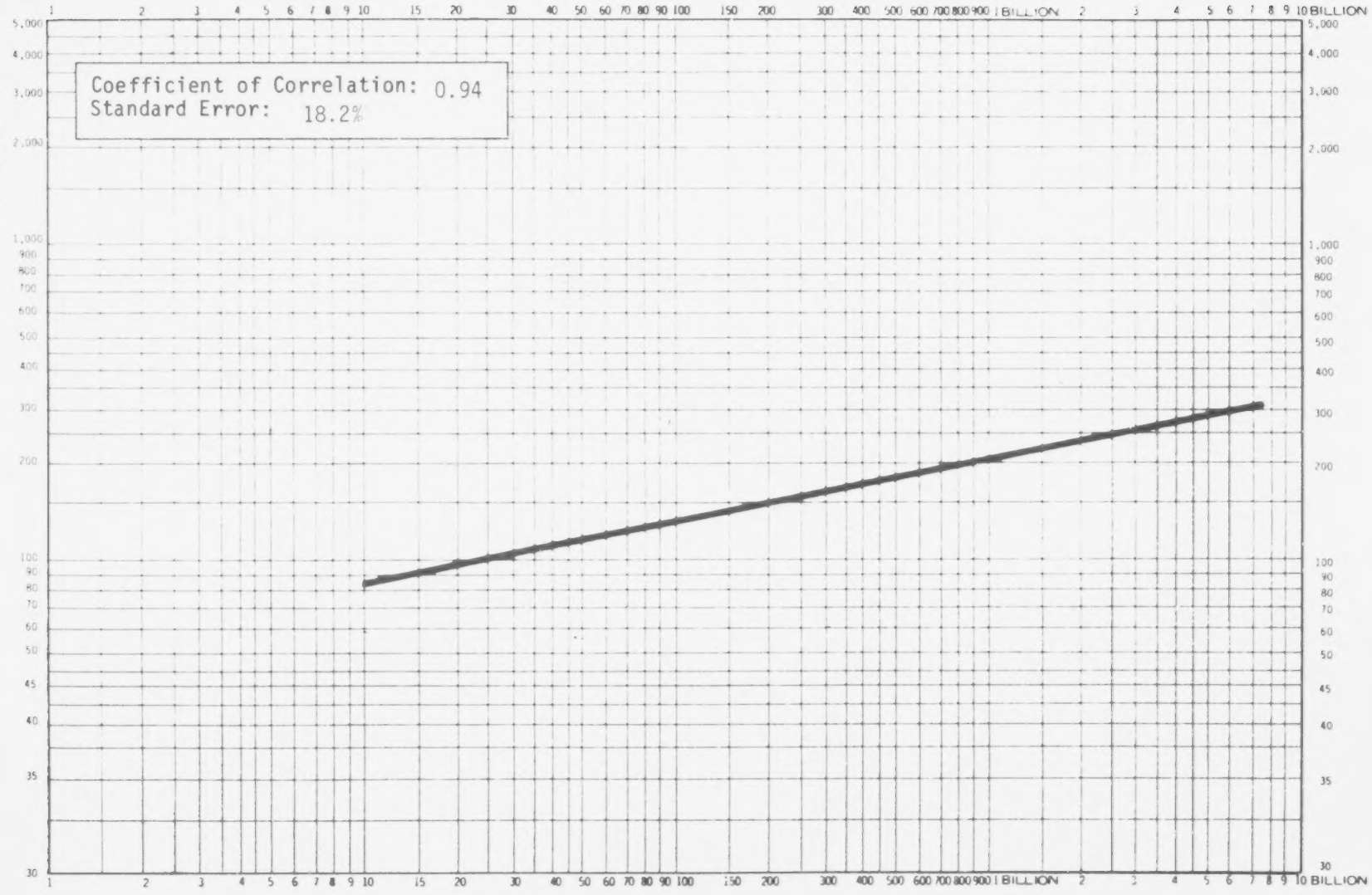
Executive Benchmark Position: Executive Vice President - Base



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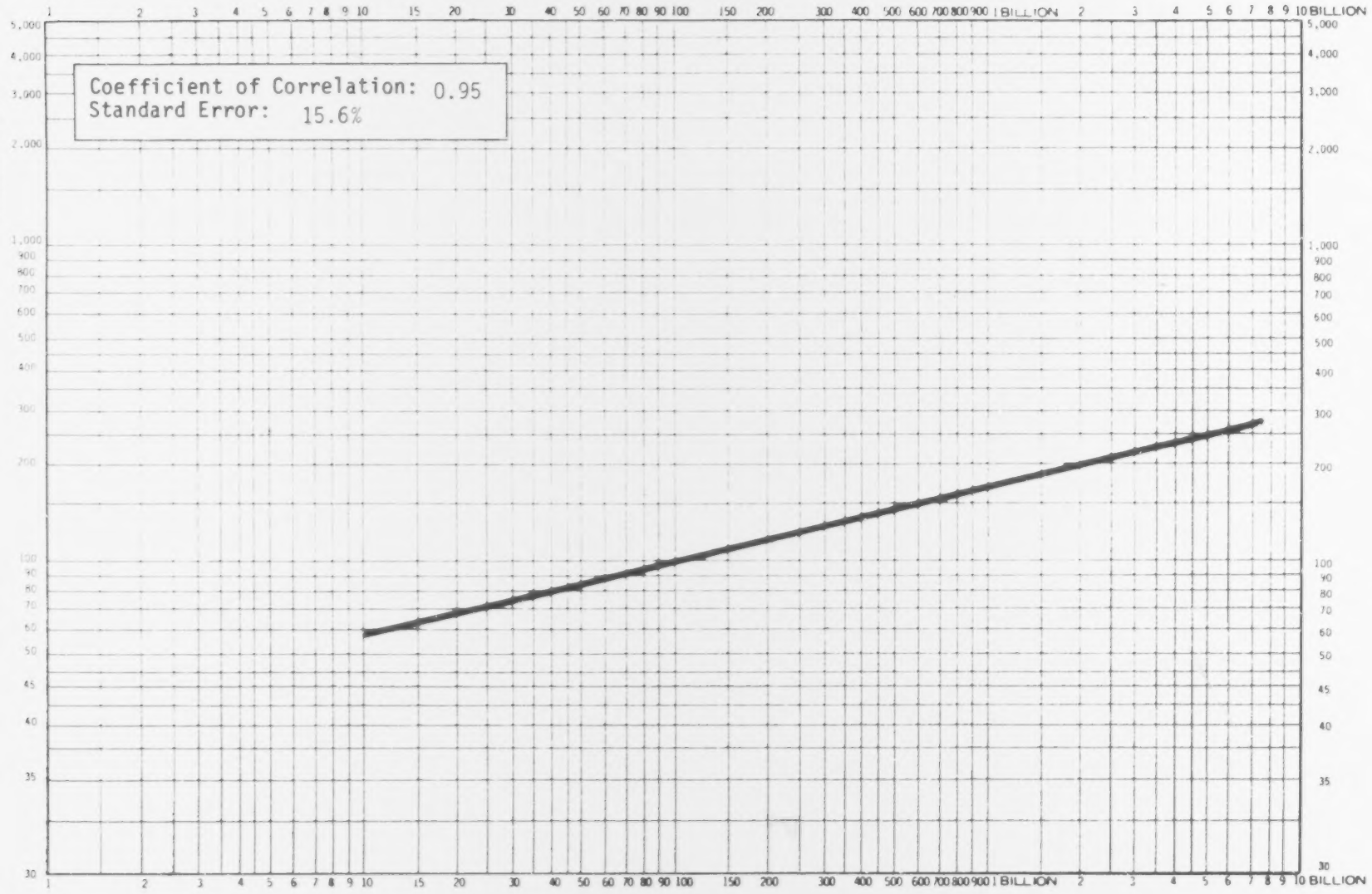
Executive Benchmark Position: Top Financial Executive - Base



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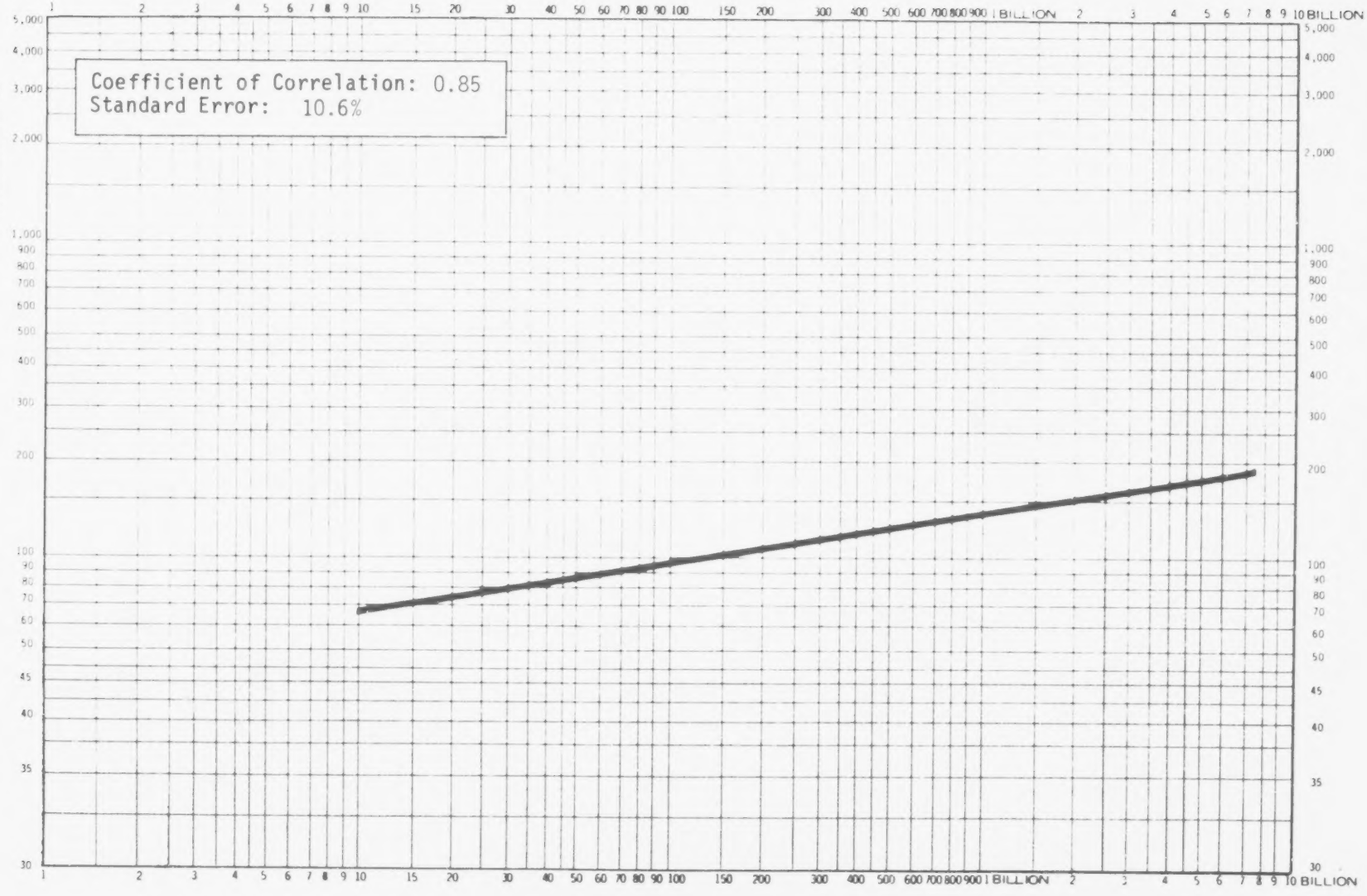
Executive Benchmark Position: Top Marketing Executive - Base



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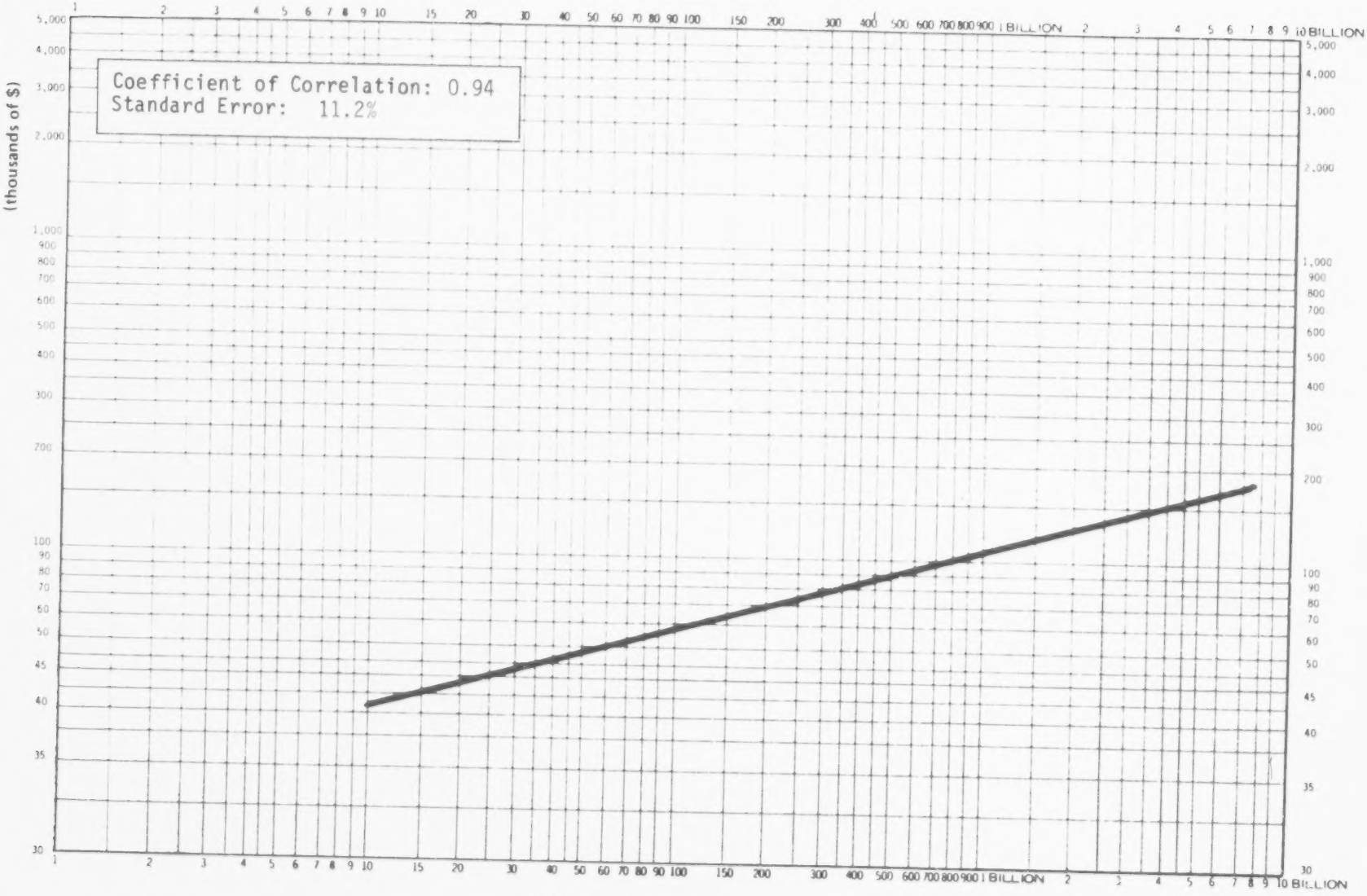
Executive Benchmark Position: Top Human Resource Executive - Base



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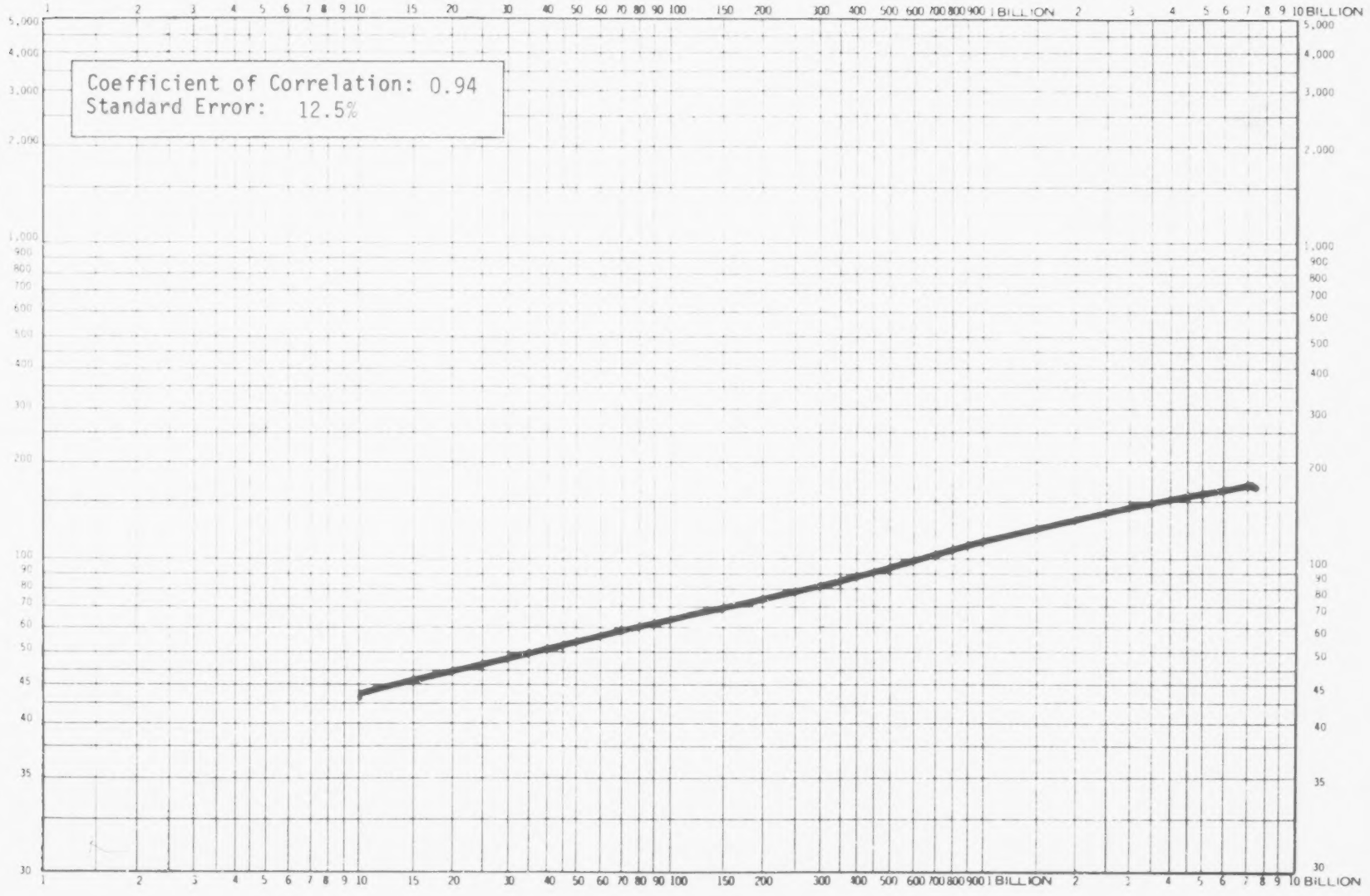
Executive Benchmark Position: Controller - Base



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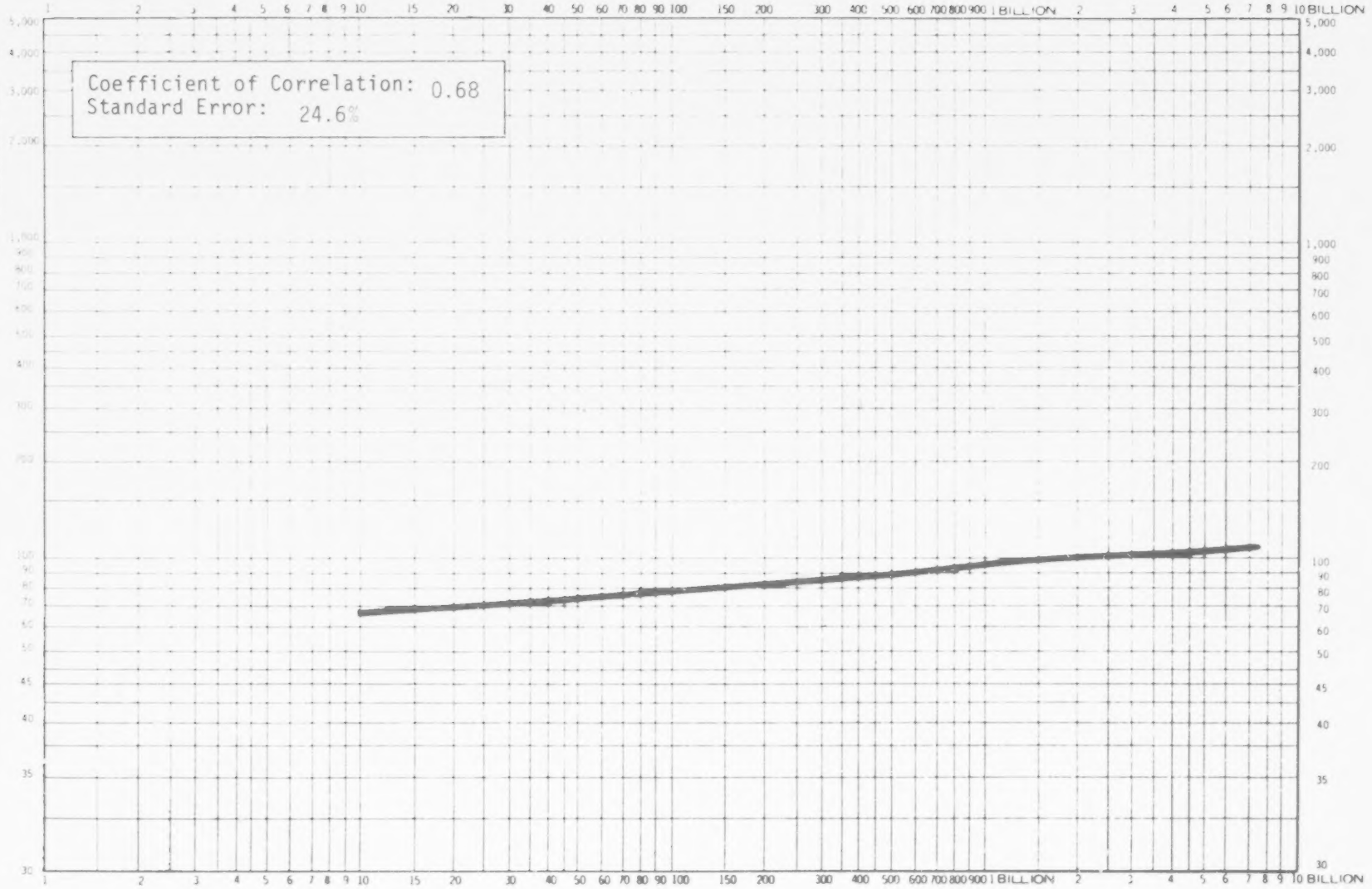
Executive Benchmark Position: Top Sales Executive - Base



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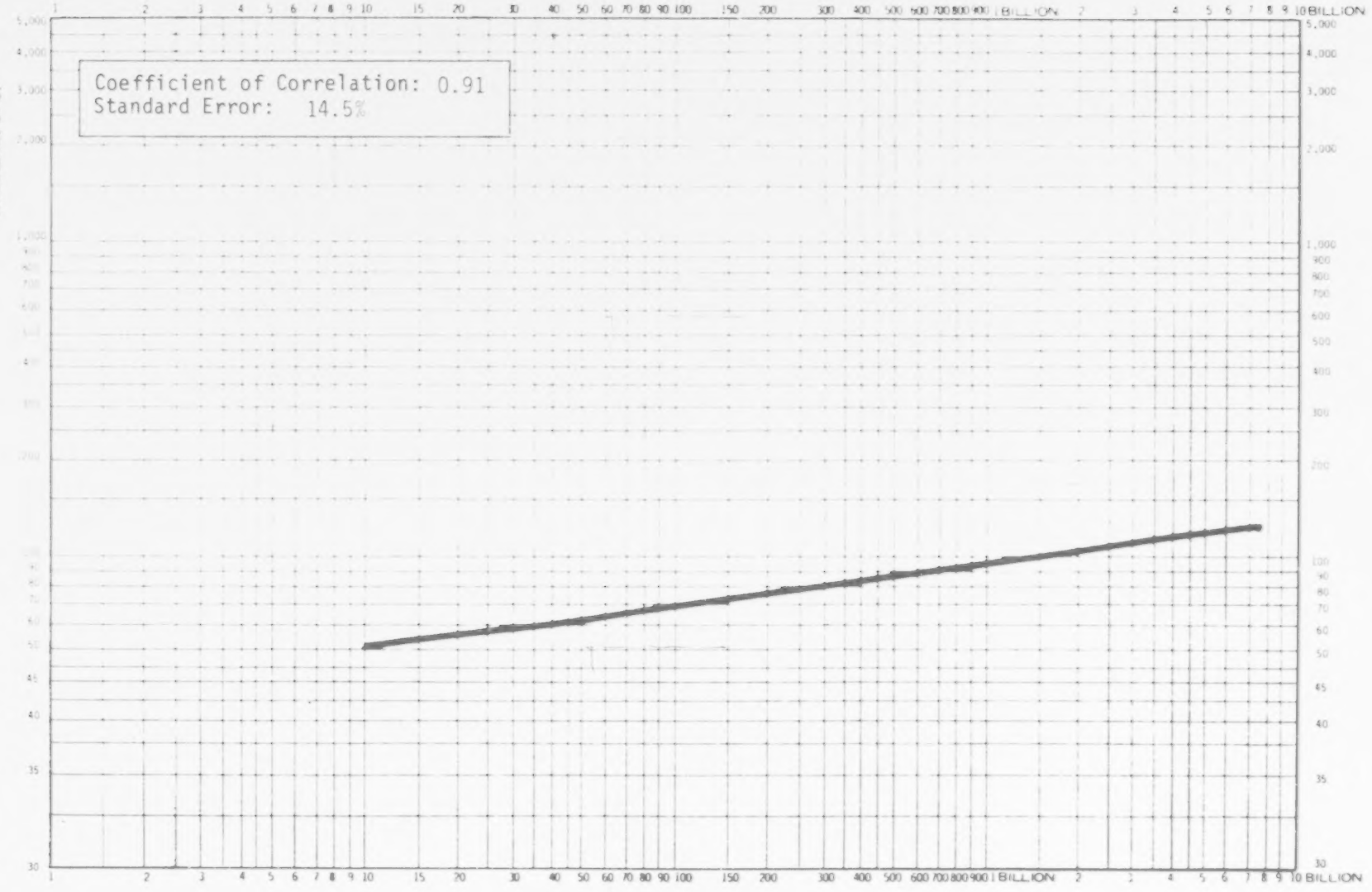
Executive Benchmark Position: Top Quality Control Executive - Base



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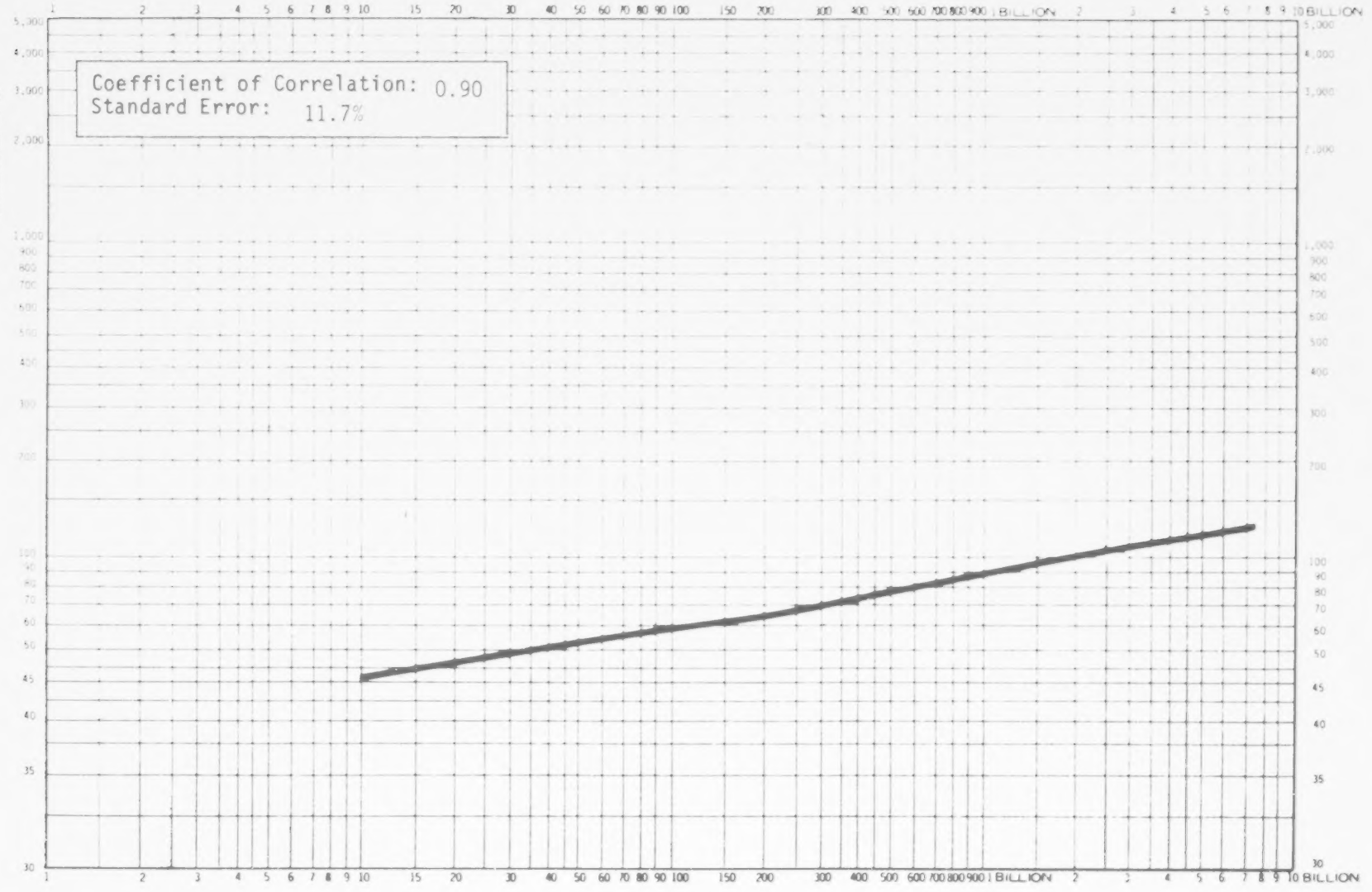
Executive Benchmark Position: Top EDP Executive - Base



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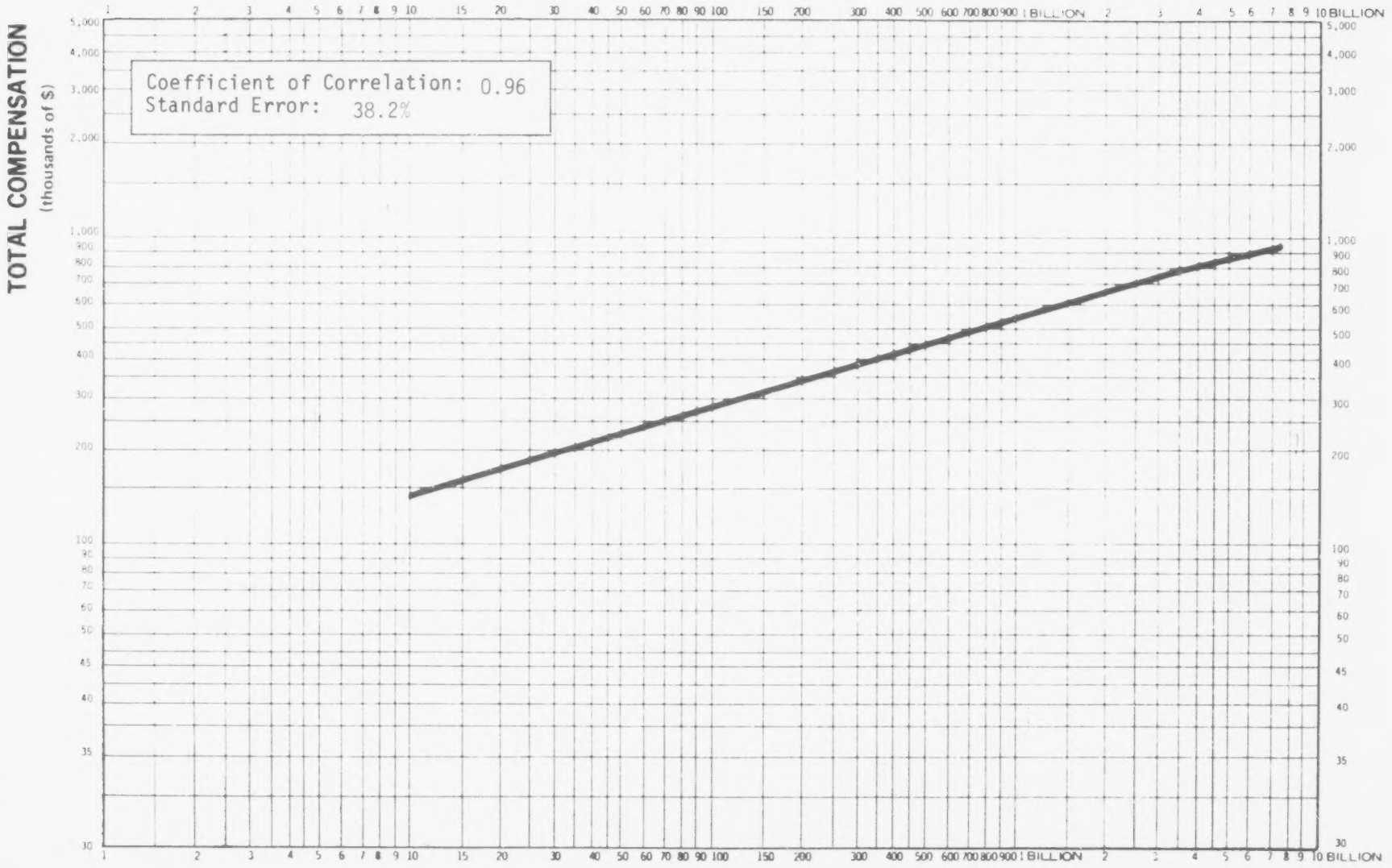
SECTION V

TOTAL COMPENSATION REGRESSION ANALYSIS FOR EXECUTIVE BENCHMARK POSITIONS

Executive Benchmark Position: Chief Executive Officer - Total Compensation



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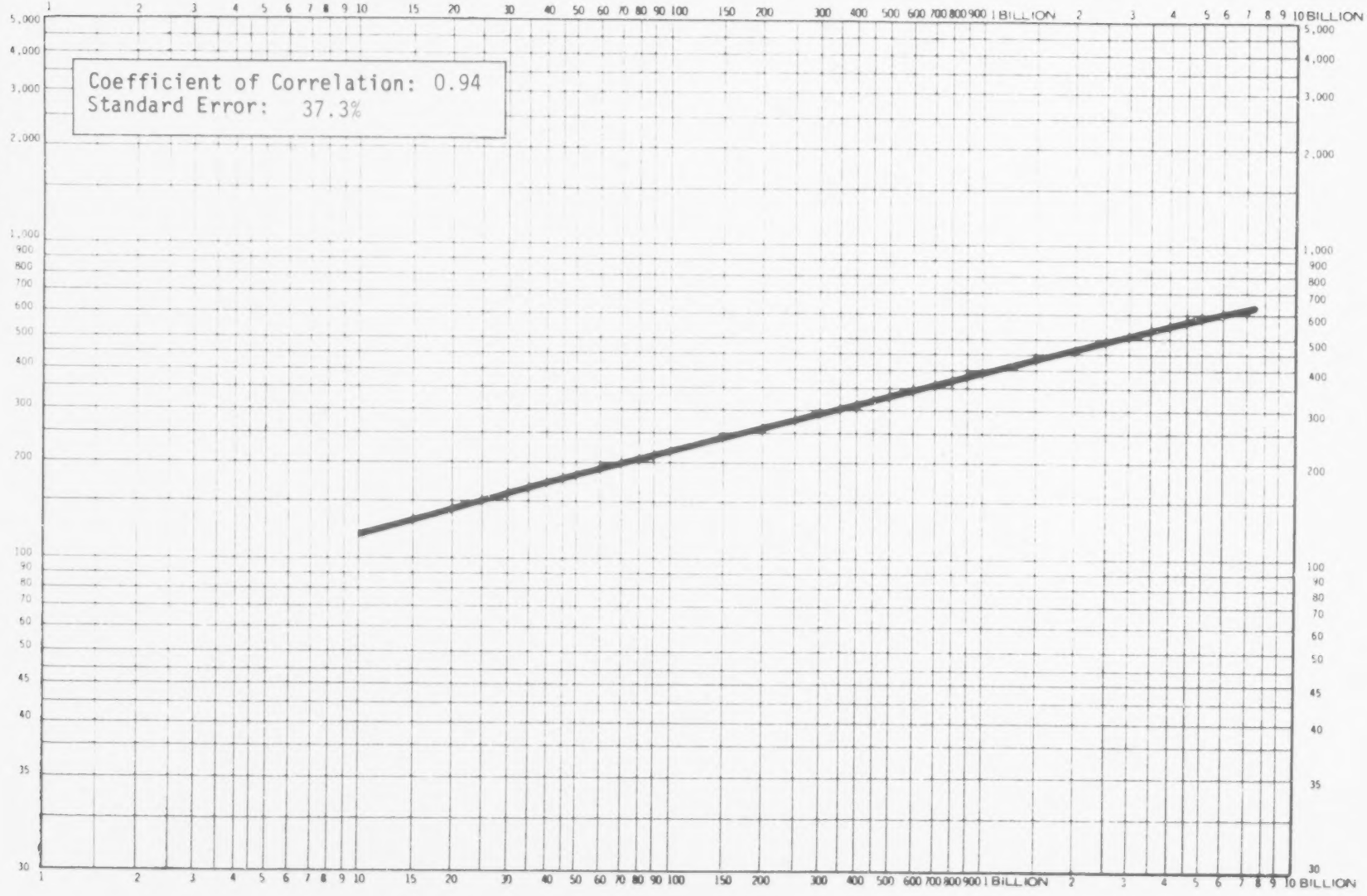
Executive Benchmark Position: Chief Operating Officer - Total Compensation



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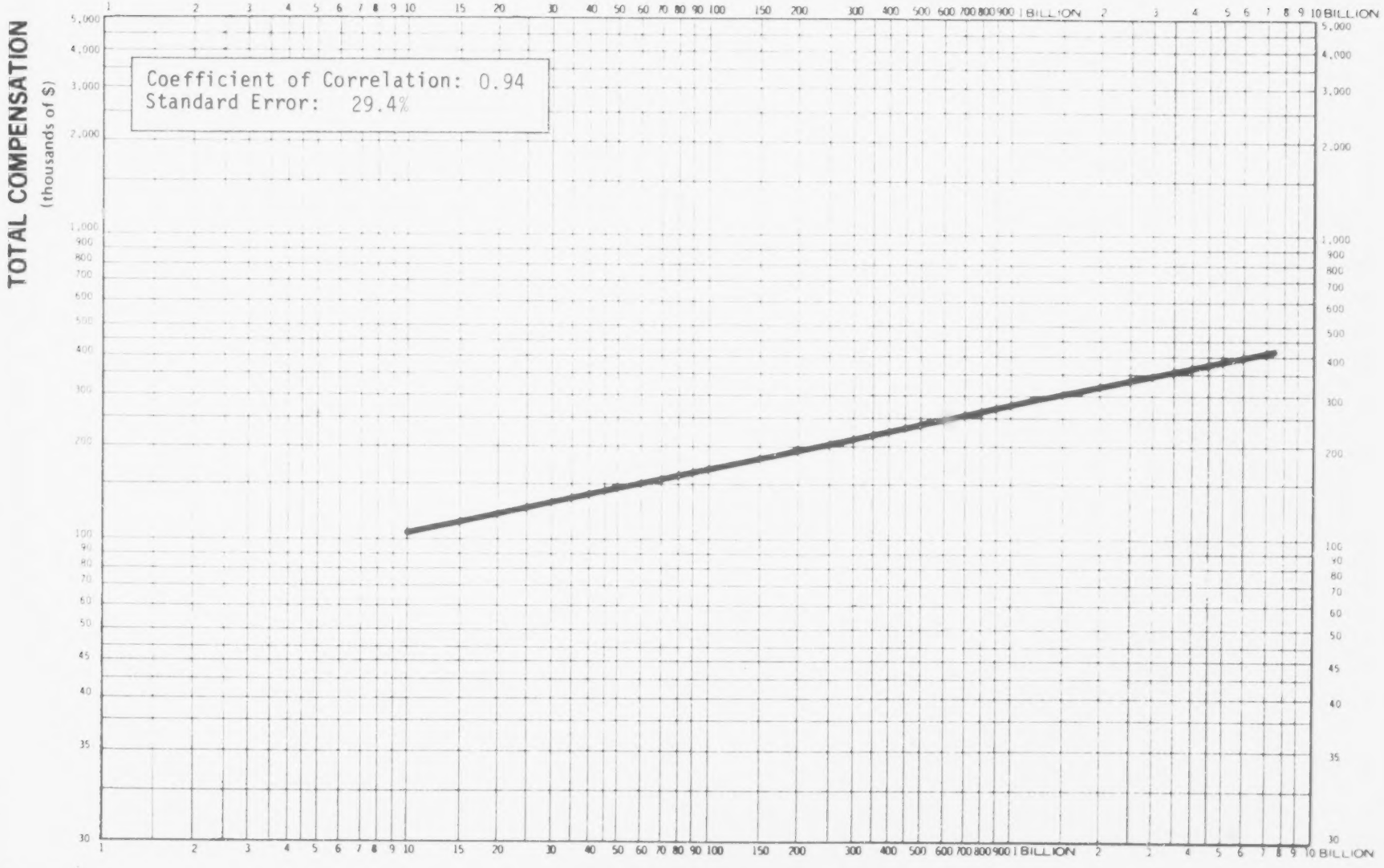
Executive Benchmark Position: Executive Vice President - Total Compensation



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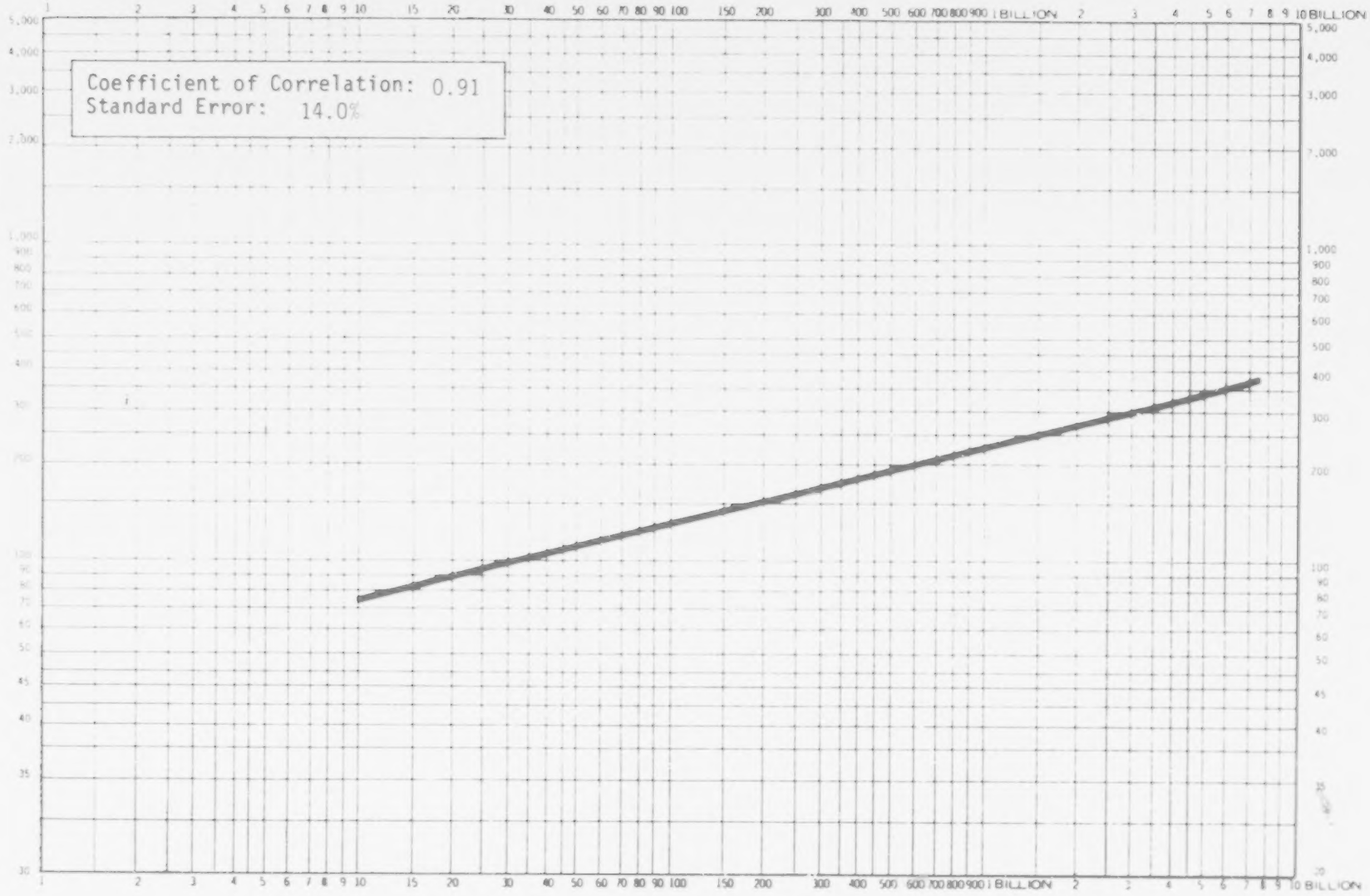
Executive Benchmark Position: Top Financial Executive - Total Compensation



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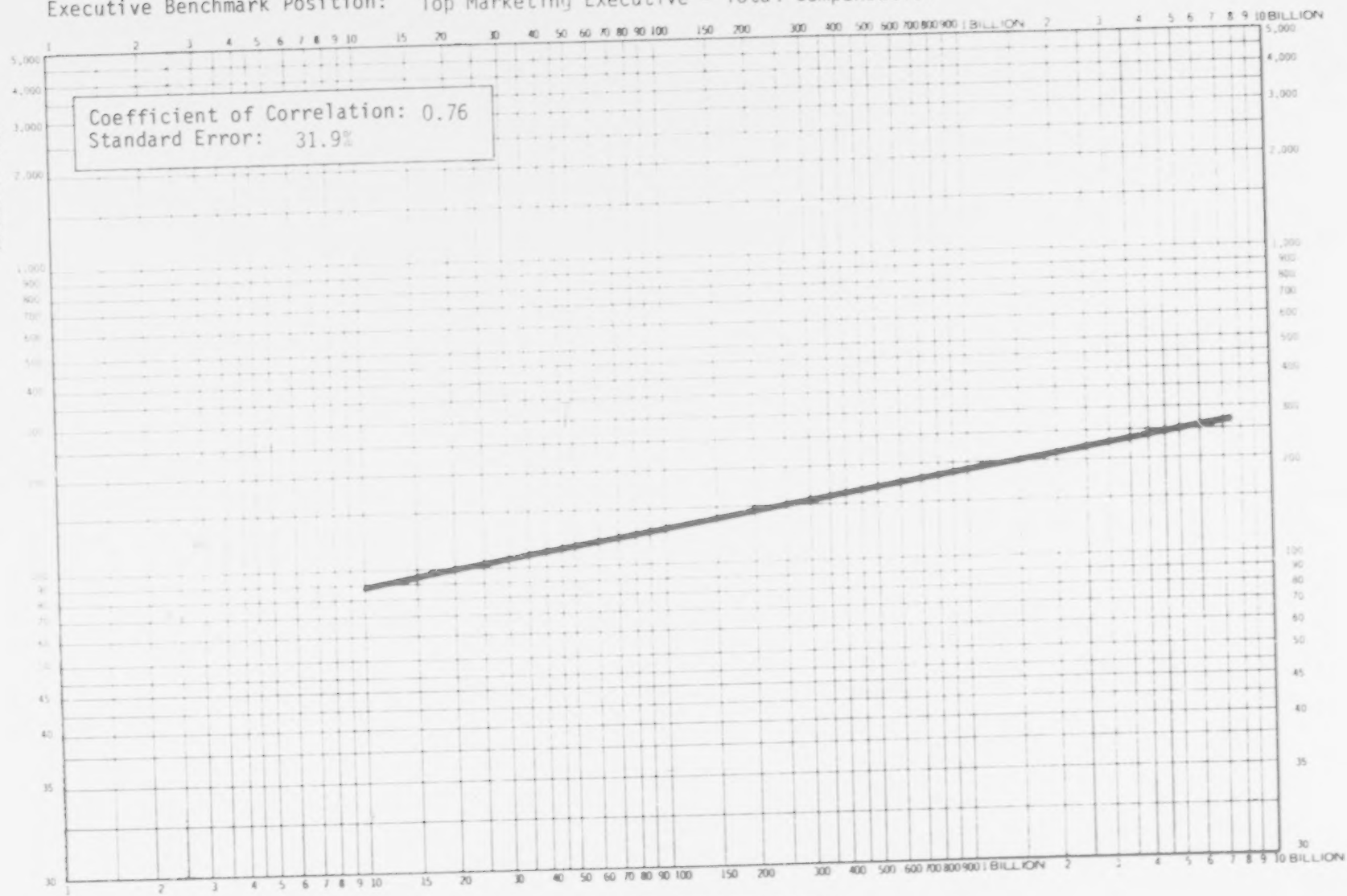
Executive Benchmark Position: Top Marketing Executive - Total Compensation



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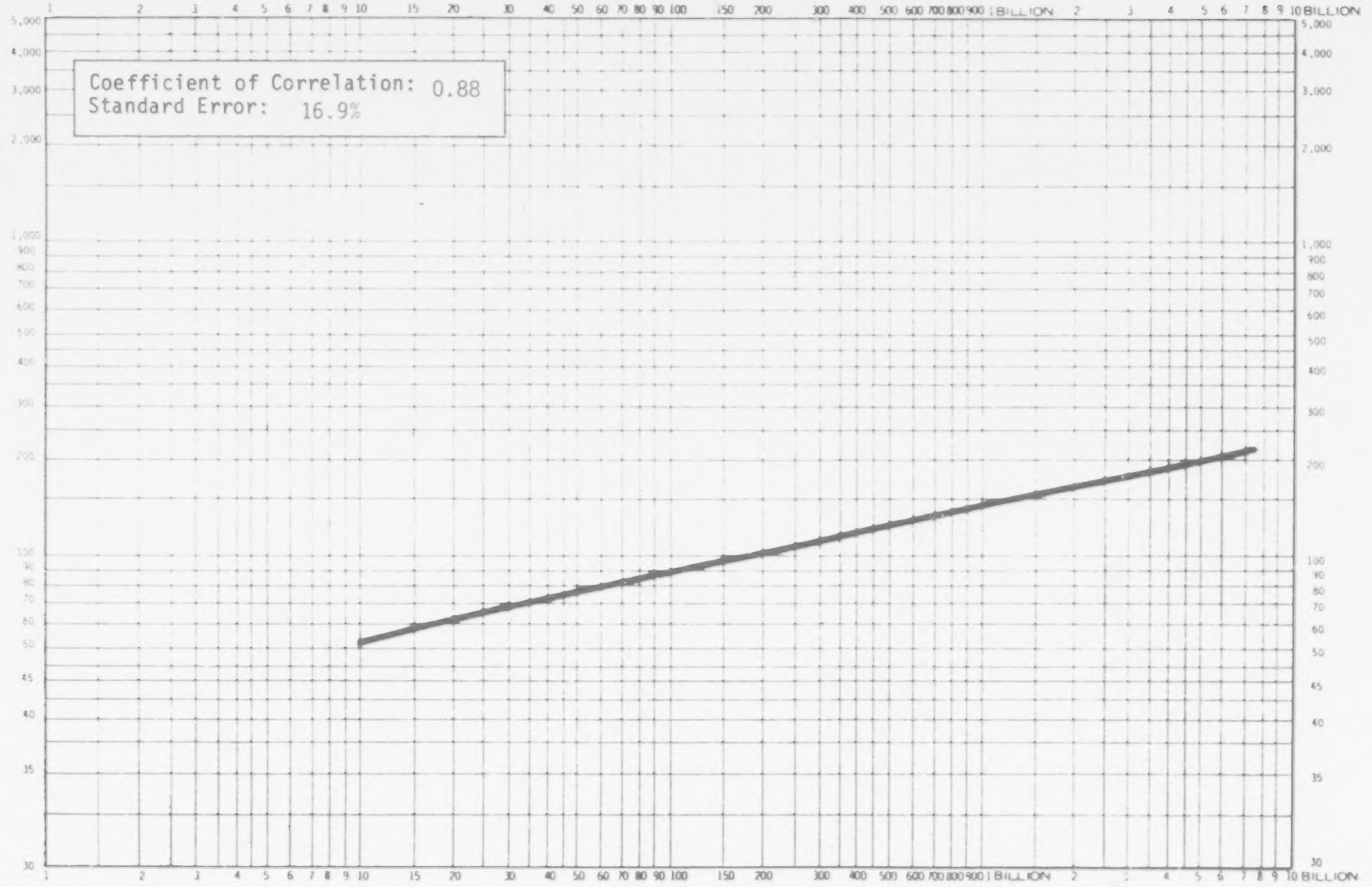
Executive Benchmark Position: Top Human Resource Executive - Total Compensation



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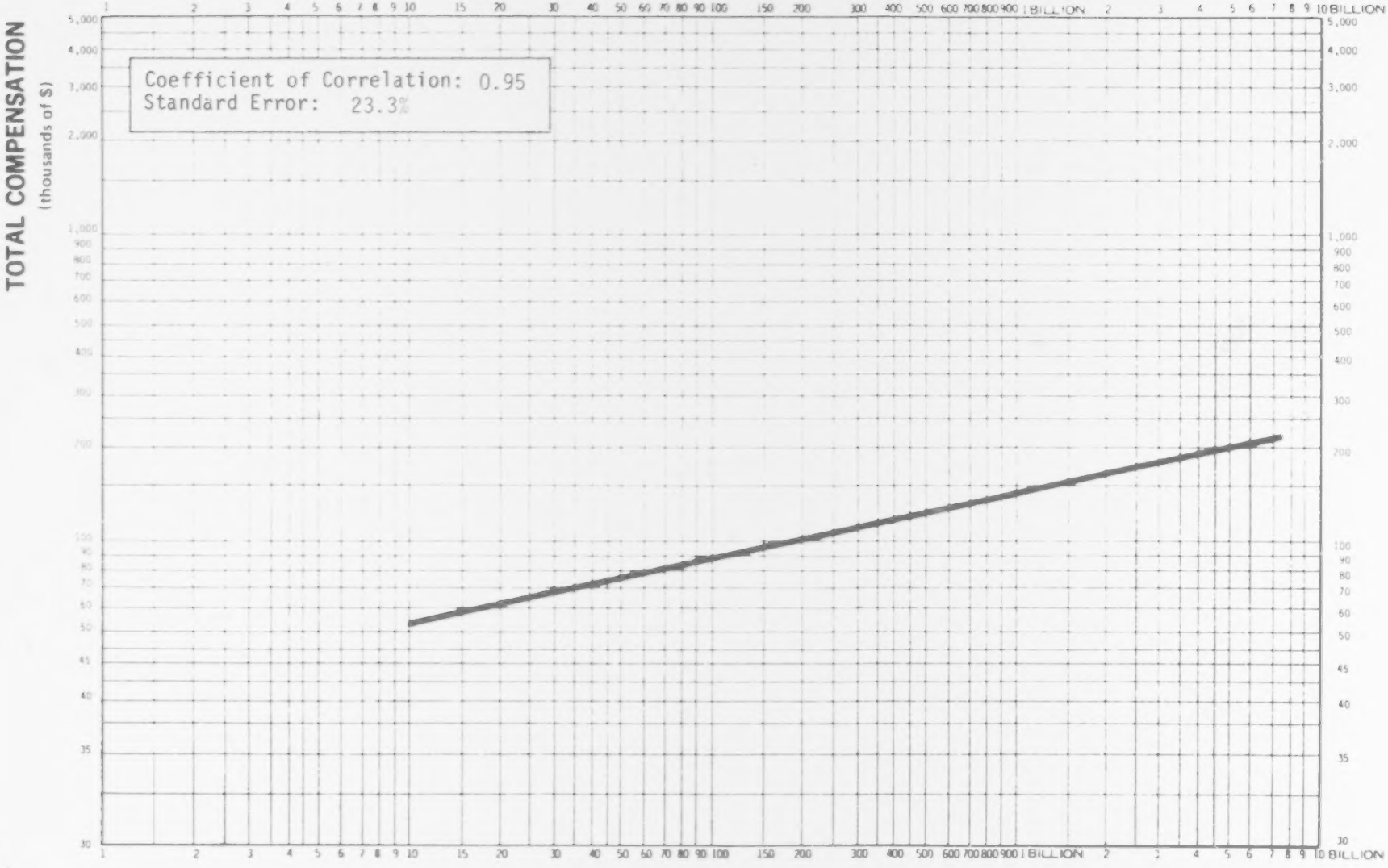
Executive Benchmark Position: Controller - Total Compensation



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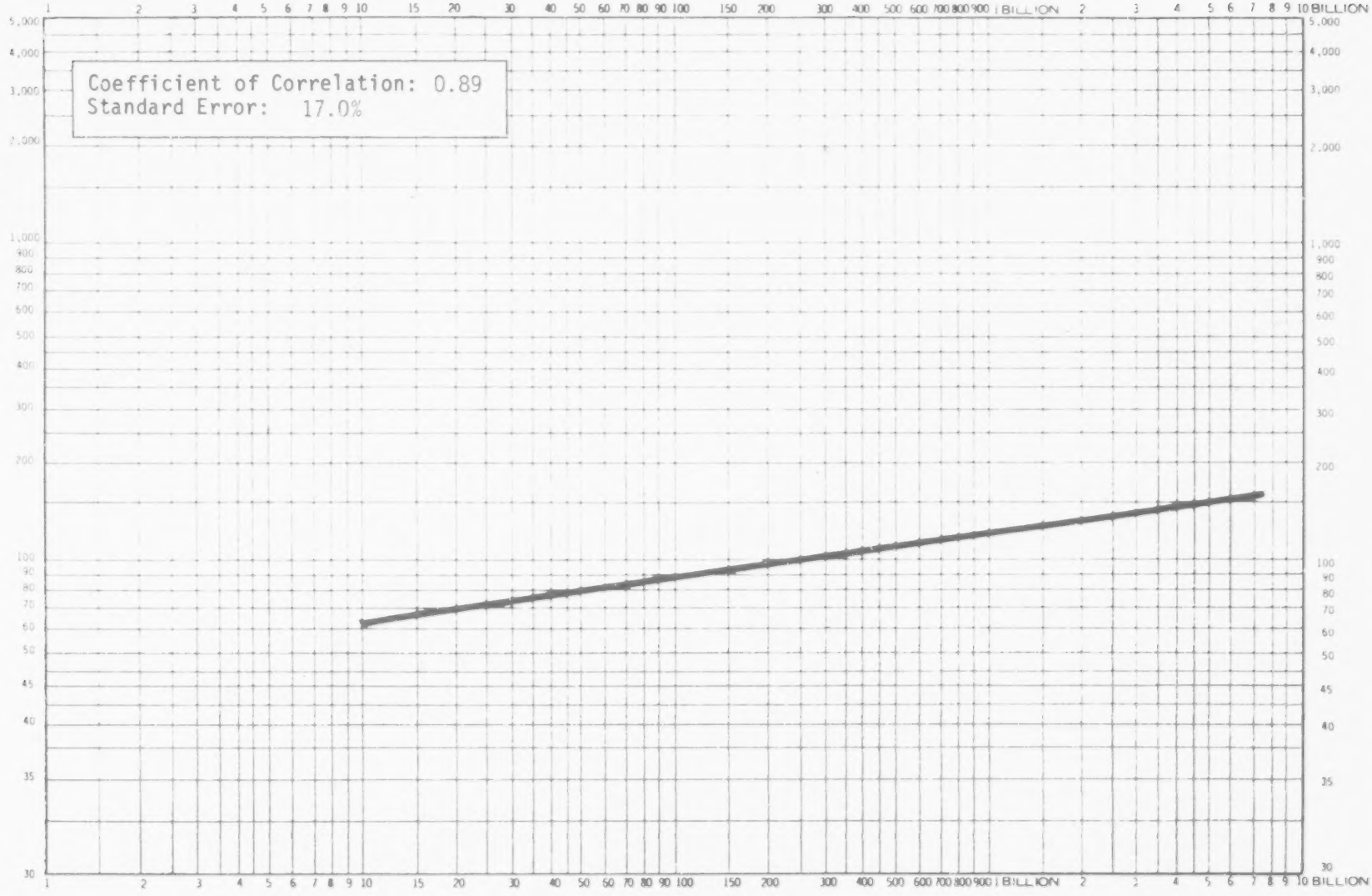
Executive Benchmark Position: Top Quality Control Executive - Total Compensation



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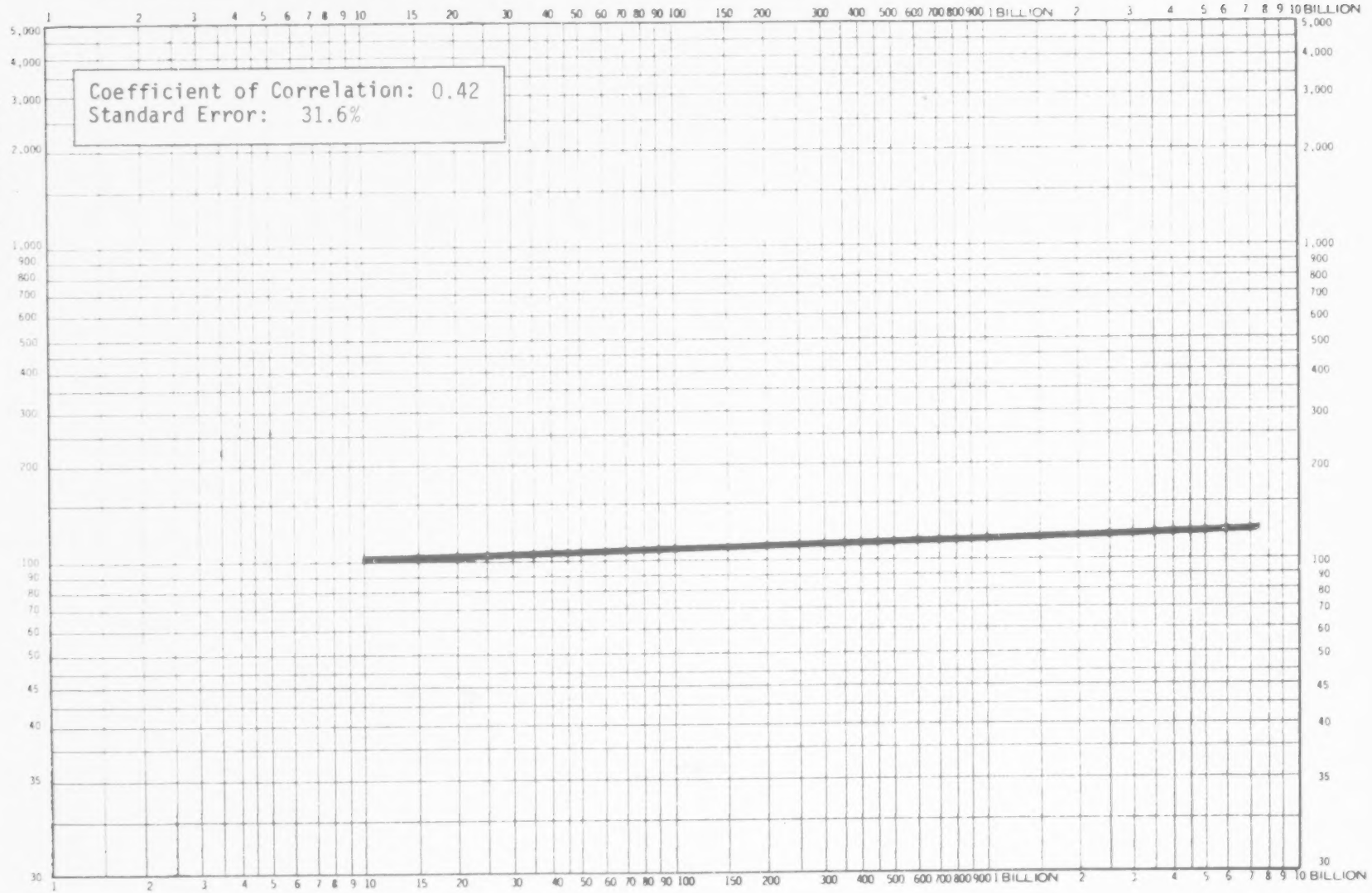
Executive Benchmark Position: Top Sales Executive - Total Compensation



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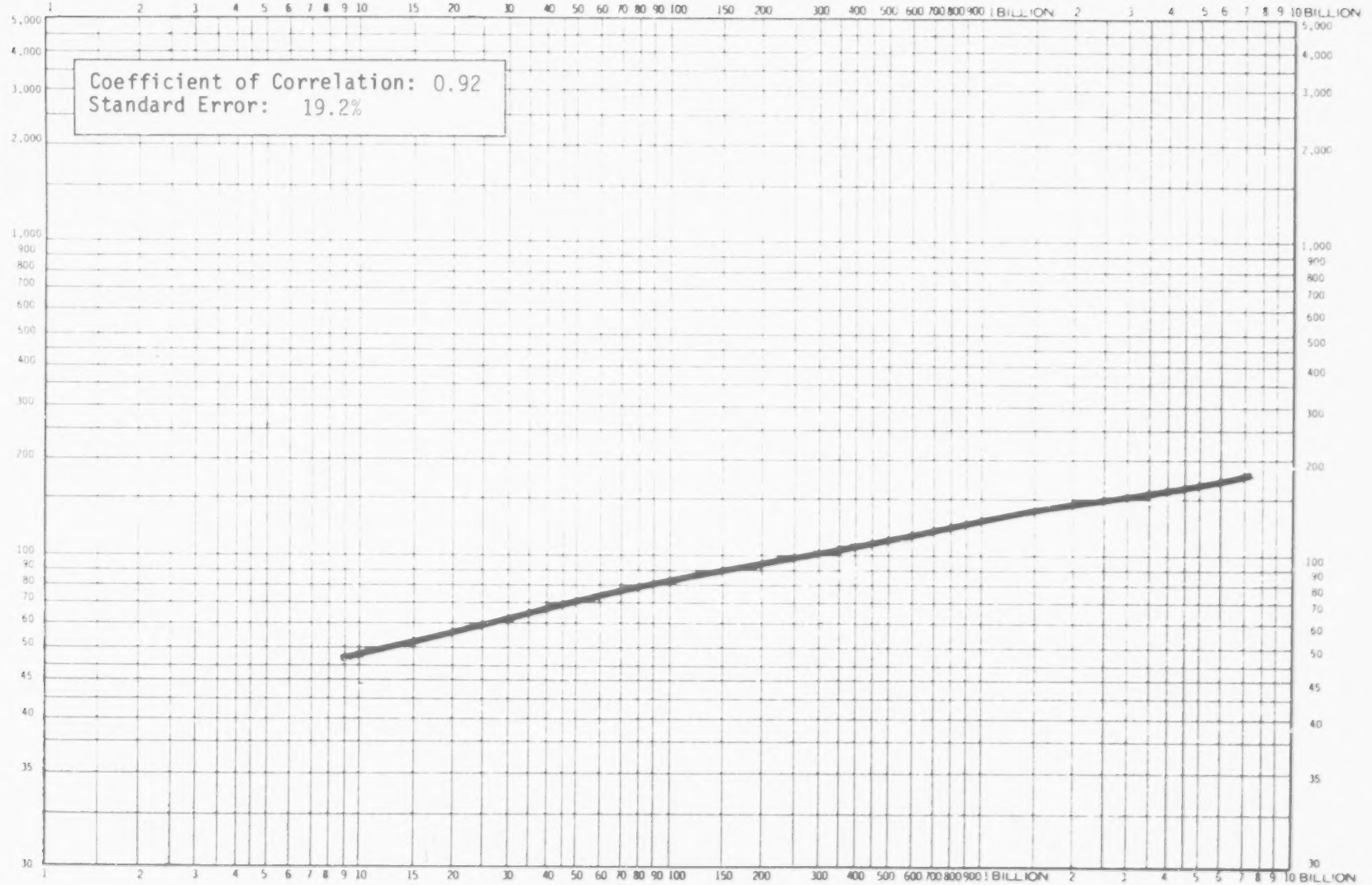
Executive Benchmark Position: Top EDP Executive - Total Compensation



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SECTION VI

Development of Base and Total Compensation
Structures from Executive Benchmark Position Survey
Regression Lines

This section of our study has been introduced to utilize the base salary and total compensation regression lines in developing executive compensation structures for both base and total compensation.

* Market Regression Line Compensation Points are listed for Benchmark Positions at a sales volume of $1,000,000,000 for both base and total compensation.

* An executive compensation structure has been developed to best fit the Regression Line Points for Benchmark Positions for both base and total compensation. The formula approach used in developing these structures has also been included.

* An analysis of Salary Grade Mid-Points to Market Regression Line Compensation Points for Executive Benchmark Positions has also been included.

* Regression Line Compensation Points for Executive Benchmark Positions can be derived at sales volumes from $10,000,000 to $7,500,000,000.

This provides a tool to examine various compensation philosophies. Lower base and higher risk income can be analyzed by price discounting the base salary structure by an appropriate percentage.

Higher base salary and lower incentive can be analyzed by increasing the base salary or lowering the total compensation structure, etc.

Base Salary

Base Salary Compensation
Regression Line Points*
For Selected Executive Benchmark Positions
(Based on Assumed Sales Volume of $1,000,000,000)

Benchmark Position	Regression Market Line Compensation Points by Sales Volume
Chief Executive Officer	$386,000
Chief Operating Officer	$276,000
Executive Vice President	$201,000
Top Financial Executive	$172,000
Top Marketing Executive	$142,000
Top Human Resource Executive	$117,000
Controller	$110,000
Top Quality Control Executive	$ 94,000
Top Sales Executive Executive	$ 94,000
Top EDP Executive	$ 96,000

* Based on Section IV data

Base Salary Executive Compensation
Structure From Regression Line Points
For a Company with Sales Volume of
$1,000,000,000

A is the highest mid-point (Salary Grade 12); B is the lowest mid-point (Salary Grade 1); F is the factor; N-1 is the number of grades minus one.

$$A = BF^{(N-1)}$$

$$\$386 = \$96 \quad F \quad 11 \text{ grades}$$

$$2.5865873 = 1.9822712$$

(log of highest mid-point) (log of lowest mid-point)

F = 2.5865873 (log of highest mp)
-1.9822712 (log of lowest mp)

$$F = \frac{0.6043161}{11 \text{ (grades)}}$$

F = .0549378 (the anti log of this number is the factor shown below)

F = 1.1348483

Once we determine the mid-point of each grade, the minimum and maximum of each grade is determined as follows:

min = mid-point X .80
max = mid-point X 1.20

Salary Grade	Minimum	Mid-Point	Maximum
12	$308,800	$386,000	$473,200
11	$272,000	$340,000	$408,000
10	$240,000	$300,000	$360,000
9	$211,200	$264,000	$316,800
8	$186,400	$233,000	$279,600
7	$164,000	$205,000	$246,000
6	$144,800	$181,000	$217,200
5	$127,200	$159,000	$190,800
4	$112,000	$140,000	$168,000
3	$ 99,200	$124,000	$148,800
2	$ 87,200	$109,000	$130,800
1	$ 76,800	$ 96,000	$115,200

Analysis of Base Salary
Salary Grade Mid-points to Market
Regression Line Compensation Points
for Executive Benchmark Position

Salary Grade	Executive Benchmark Position	Mid-Point	Market Regression Line Compensation Point
12	Chief Executive Officer	$386,000	$386,000
11	----------	$340,000	--------
10	Chief Operating Officer	$300,000	$276,000
9	----------	$264,000	--------
8	----------	$233,000	--------
7	Executive Vice President	$205,000	$201,000
6	Top Financial Officer	$181,000	$172,000
5	----------	$159,000	--------
4	Top Marketing Executive	$140,000	$142,000
3	Top Human Resource Executive	$124,000	$117,000
2	Controller	$109,000	$110,000
1	Top Quality Control Executive	$ 96,000	$ 94,000
	Top Sales Executive	$ 96,000	$ 94,000
	Top EDP Executive	$ 96,000	$ 96,000

Total Compensation
Market Regression Line Points*
For Selected Executive Benchmark Positions
(Based on Assumed Sales Volume of $1,000,000,000)

Benchmark Position	Regression Market Line Compensation Points by Sales Volume
Chief Executive Officer	$537,000
Chief Operating Officer	$390,000
Executive Vice President	$273,000
Top Financial Executive	$230,000
Top Marketing Executive	$188,000
Top Human Resource Executive	$153,000
Controller	$141,000
Top Quality Control Executive	$119,000
Top Sales Executive Executive	$119,000
Top EDP Executive	$114,000

* Based on Section V data

Total Compensation
Executive Compensation Structure
From Regression Line Points
For a Company with Sales Volume of
$1,000,000,000

A is the highest mid-point (Salary Grade 12); B is the lowest mid-point (Salary Grade 1); F is the factor; N-1 is the number of grades minus one.

$$A = BF^{(N-1)}$$

$$\$537 = \$119$$

$$2.7299743 = 2.075547 \quad F \quad 11 \text{ grades}$$

(log of highest mid-point) (log of lowest mid-point)

F = 2.7299743 (log of highest mp)
-2.0755470 (log of lowest mp)

$$F = \frac{0.6554273}{11} \quad \text{(grades)}$$

F = .059493 (the anti log of this number is the factor shown below)

F = 1.1468151 (this factor is applied successively to each mid-point)

Once we determine the mid-point of each grade, the minimum and maximum of each grade is determined as follows:

min = mid-point X .80
max = mid-point X 1.20

Salary Grade	Minimum	Mid-Point	Maximum
12	$429,600	$537,000	$644,400
11	$374,400	$468,000	$561,600
10	$326,400	$408,000	$489,600
9	$284,800	$356,000	$427,200
8	$248,000	$310,000	$372,000
7	$216,800	$271,000	$325,200
6	$188,800	$236,000	$283,200
5	$164,800	$206,000	$247,200
4	$143,200	$179,000	$214,800
3	$124,800	$156,000	$187,200
2	$108,800	$136,000	$163,200
1	$ 95,200	$119,000	$142,800

Analysis of Total Compensation
Salary Grade Mid-points to Market
Regression Line Compensation Points
for Executive Benchmark Position

Salary Grade	Executive Benchmark Position	Salary Grade Mid-Point	Market Regression Line Compensation Point
12	Chief Executive Officer	$537,000	$537,000
11	----------	$468,000	--------
10	Chief Operating Offi er	$408,000	$390,000
9	----------	$356,000	--------
8	----------	$310,000	--------
7	Executive Vice President	$271,000	$273,000
6	Top Financial Officer	$236,000	$230,000
5	----------	$179,000	--------
4	Top Marketing Executive	$156,000	$188,000
3	Top Human Resource Executive	$139,000	$153,000
2	Controller	$119,000	$141,000
1	Top Quality Control Executive	$119,000	$119,000
	Top Sales Executive	$114,000	$119,000
	Top EDP Executive	$ 96,000	$119,000

SECTION VII

CONCLUSION

The purpose of this study has been to present a diversity of approaches used in the design of executive incentive compensation plans, both short and long term. It is our role to present the key elements of total executive compensation which must be carefully evaluated by each company. Each company's evaluation should be based on their own corporate performance variables, the way in which these variables can be profitably improved and the degree to which eligible executives can contribute to that profitability, prior to compensation plan design.

These elements provide the basis for a management decision concerning the design of an executive incentive compensation plan which must reflect management's total compensation philosophy. That is, does management want to pay competitive total compensation or total compensation above or below competition? Does management want to pay a low base with high incentive to provide a higher degree of total compensation related to corporate performance? Does management want to pay, at the other extreme, with a high base and low incentive? The answer to these questions must be resolved by management and their assessment of their particular business. How much risk is involved and how much total compensation should be related to that risk? The degree of risk income built into the design of an incentive plan determines the swing in total compensation allocated to actual performance both corporate and individual.

We are convinced that this study can also act as a workshop. Once you determine the corporate performance variable(s) most in need of improvement in your organization; the number of eligible employees who can make a significant and recognizable contribution to that improvement; the incentive fund formula(ae) best designed to generate a fund to reward corporate performance; a method for allocating an equitable distribution of that fund on an individual performance related basis and an understanding of management's total compensation philosophy, you have the fundamental ingredients for designing a sound short and/or long term Executive Compensation Plan.